

CITY OF TILLAMOOK FISCAL POLICIES



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PURPOSE

The City of Tillamook is committed to responsible fiscal management through financial integrity, prudent stewardship of public assets, planning, accountability and full disclosure. The broad purpose of the Fiscal Policies is to enable the City to achieve and maintain a long-term stable and positive financial condition. These policies are adopted by Council as the basic framework for overall financial management of the City, to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Provide an adequate financial base to sustain a sufficient level of municipal services to maintain the social well-being and physical conditions of the City.
2. Deliver cost effective and efficient services to citizens.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and also to assure taxpayers and the financial community that the City is well-managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect the City's residents.
6. Adhere to the standards of financial management and reporting practices as set by the Government Finance Officers Association, the Governmental Accounting Standards Board and other professional standards.
7. Fully comply with finance related legal mandates, laws and regulations

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt management, accounting and financial reporting, reserves and internal controls. These policies are reviewed and updated every other year as part of the biennial budget preparation process.

REVENUE POLICIES

1. The City will strive for and maintain a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds. This revenue diversity will shelter the City from short-run fluctuations in any one revenue source.
2. One-time revenues will be used only for one-time expenditures. The City will avoid using temporary revenues to fund mainstream services or for budget balancing purposes.
3. User fees and charges will be established for services provided that benefit specific individuals or organizations. User fees and charges will be set at a level sufficient to recover full cost of service whenever practical to minimize subsidization by taxpayers. The City will systematically review user fees and charges to take into account the effects of additional service costs and inflation.

Unless prohibited by law, certain fees may be deferred by Council action when it can be demonstrated that a direct public benefit will be obtained. In addition, the Council may direct that certain fees be paid on behalf of applicants and Council's action will include a determination of the source of funds to pay such fees.

5. All fees, charges or assessments that are deferred for later payment will be evidenced by a promissory note or agreement. The City may charge periodic interest, processing fees and additional interest and penalties for delinquencies as appropriate.
6. Water, Water Reclamation (Sewer) and Stormwater funds will strive to be self-supporting through user fees. Fee adjustments will be based on five-year financial plans.
7. All potential grants shall be evaluated for matching requirements and on-going resource requirements before acceptance. Grants may be rejected to avoid commitments beyond available funding.
8. The City will not respond to long-term revenue shortfalls with deficit financing and borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecasts and/or revenue increases will be considered.
9. Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively. The City will estimate its revenues by an objective, analytical process.

OPERATING BUDGET POLICIES

1. The City will prepare an annual budget with the participation of all Departments.
2. All budgetary procedures will conform to existing state and local regulations. Oregon budget law requires each local government to prepare a balanced budget and Oregon Administrative Rules state: 1) the budget must be constructed in such a manner that the total resources in a fund equal the total of expenditures and requirements for that fund, and 2) the total of all resources of the district must equal the total of all expenditures and all requirements for the district.
3. The budget process will be coordinated so that major policy issues and department goals and objectives are identified and incorporated into the budget.
4. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government and internal service costs to other funds and capital projects.
5. The operating budget will be constrained to the total amount approved by the Budget Committee and as adjusted and adopted by the City Council.
6. The City Council shall adopt the budget at the fund, departmental or program level as a total dollar amount for all appropriations except contingency, unappropriated ending fund balance and reserves, which shall be stated separately.
7. The full time equivalent (FTE) for each operating fund or department shall be brought before City Council for adoption with the budget, and any changes mid-budget cycle shall also be authorized by the City Council. *This will include funding for employee liabilities such as accumulated comp and vacation time that are probable pay-outs.*
8. All supplemental appropriations for programs or additional personnel (appropriations requested after the original budget is approved) will be analyzed by the City Manager and will only be approved after consideration of availability of revenues.
9. Oregon budget law provides a means to adjust the budget for emergency expenditures or unforeseen circumstances. All resolutions adjusting the budget will be prepared by the City Manager for Council approval to ensure compliance with budget laws.
10. Monthly reports comparing actual to budgeted expenditures will be prepared by the Finance Officer and distributed to the City Manager and City Council. Significant budget to actual variances will be investigated.
11. The City Council hereby authorizes the City Manager, in consultation with the Finance Committee, to develop, approve and change Administrative Policies as needed that reflect procedures and directives concerning financial management that support or clarify Fiscal Management Policies approved by the City Council.

EXPENDITURE CONTROL POLICIES

1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Department or Division Manager or Officer will be responsible for the administration of his/her department/division budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each department/division budget for compliance with spending limitations.
2. The City Manager will administer expenditure control at the category level and program or divisional level. Additionally, the City Manager may give authorization to mandate this level of control down to any line item level. Expenditures anticipated to be in excess of these levels require approval of the City Manager.
3. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures and with State laws and regulations.
4. Before the City purchases any major asset or undertakes any operating or capital arrangements that create fixed costs or ongoing operational expenses, the implications of such purchases or arrangements will be fully determined for current and future years.
5. All compensation planning and collective bargaining will include analyses of total cost of compensation which includes analysis of salary increases, health benefits, pension contributions, fringe benefits and other personnel costs. This will include employee liabilities such as accumulated comp and vacation time that are probable pay-outs. The City will only propose operating personnel costs, which can be supported by on-going operating revenues.
6. The City will make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient.
7. After consultation with the Finance Committee, the City Manager is hereby authorized to surplus unneeded assets of under \$3,000 in value through whichever venue provides the best value to the community. Surplus of items of greater value shall be brought to the Council for approval.
8. In 2011, the City shall prepare and review an Asset Management Plan that analyzes all City real property, fleet and rolling stock, and information system assets in order to establish a rotational program that optimizes useful life cycles, eliminates redundancies, and maximizes customer service.

CAPITAL IMPROVEMENT POLICIES

1. Starting in 2012 a five-year Capital Improvement Program (GIP) encompassing all City facilities shall be prepared and updated every two years. A public hearing will be held to provide for public input on the CIP. The five-year CIP will be incorporated into the City's budget and long-range financial planning processes.
2. Projects included in the CIP shall have complete information on the need for the project, description and scope of work, total cost estimates, future operating and maintenance costs and how the project will be funded.
3. An objective process for evaluating CIP projects with respect to the overall needs of the City will be established through a ranking of CIP projects. The ranking of projects will be used to allocate resources to ensure priority projects are completed effectively and efficiently.
4. Changes to the CIP such as addition of new projects, changes in scope and costs of a project or reprioritization of projects will require City Council or City Manager approval.
5. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future operating maintenance and replacement costs. The City recognizes that deferred maintenance increases future capital costs, thus placing a burden on future residents. Therefore, the budget will provide for adequate maintenance and the orderly replacement of capital plant and equipment from current revenues when possible.
6. The City will determine the least costly funding method for its capital projects and will obtain grants, contributions and low cost state or federal loans whenever possible.
7. The City will establish capital equipment reserves to provide for funding of vehicles and equipment. The City will also establish major repairs and replacement reserves to provide for funding of major repairs and replacements.
8. The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature. The City may also utilize "pay- as-you-go" funding for capital improvements when current revenues and adequate fund balances are available or when issuing debt would adversely affect the City's credit rating.
9. The City will consider the use of debt financing for capital projects under the

following circumstances:

- * When the project's useful life will exceed the terms of the financing
- * When resources are deemed sufficient and reliable to service the long-term debt
- * When market conditions present favorable interest rates for City financing
- * When the issuance of debt will not adversely affect the City's credit rating and coverage ratios

FINANCIAL PLANNING POLICIES

- 1.. The City will prepare a long term financial plan to promote responsible planning for the use of resources. The long-term financial plan will include projected revenues, expenditures and reserve balances for the next five years.
2. The City's financial plan should be strategic, reflecting the Council's and the community's priorities for service while providing resources that realistically fund routine operations.
3. Long term projections of revenues and expenditures will be realistic and conservative.

ECONOMIC DEVELOPMENT FUNDING POLICIES

1. The City may employ economic development incentives to encourage value-added development and accrue public benefits to the City of Tillamook. Public benefits may include but not limited to, the following:
 - a. A benefit that materially enhances the financial position of the City by increasing its employment base or assessed valuation.
 - b. A contribution to the basic infrastructure of the City that is greater than that which would be required of the development alone.
 - c. A benefit that increases access to other public services.
2. Economic development incentives may include formation of improvement or redevelopment districts, reimbursement, deferral of certain fees and charges, use of discount lease rates or other forms of financial incentives. All such incentives will be fully evaluated by the City Manager as to the costs, risks and level of benefit as well as the financial impact of such incentives on the City's operating and capital budgets.
3. The fiscal impact evaluation will be presented to Council along with City Manager's recommendation. The City Council shall make the final decision concerning proposed economic development incentives including any repayment of incentives if performance requirements are not met.
4. Funding for economic development incentives must be identified before approval of all such incentives.

5. A development incentive shall not be provided if the development does not provide sufficient public benefit or if the cost and risks to the City will have a materially adverse impact on the City's finances or operations.

CASH MANAGEMENT AND INVESTMENT POLICIES

1. The Finance Officer or their designee shall invest all City funds according to four criteria, in order of their importance: (1) legality, (2) safety, (3) liquidity, and (4) yield.
2. The City will consolidate or pool cash balances from various funds for investment purposes and will allocate investment earnings to each participating fund by percentage of that fund's participation.
3. The City's investment securities will be protected through third party custodial safekeeping.
4. Annual investment reports summarizing investment holdings and compliance with the City's Investment Policy will be provided to City Council.

ACCOUNTING AND FINANCIAL POLICIES

1. The City will utilize the cash basis of accounting.
2. Monthly financial reports summarizing financial activity by fund will be presented to the City Manager and City Council.
3. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
4. In accordance with State law, a comprehensive financial audit, including an audit of federal grants as required by law, will be performed annually by an independent public accounting firm with the objective of expressing an opinion on the City's financial statements and assessing the accounting principals used and evaluating the internal controls in place.
5. The City will prepare its financial statements and maintain its accounting and internal control systems in accordance with applicable standards with the goal of obtaining an unqualified opinion from its auditors.
6. The City's asset capitalization policy is to capitalize and depreciation assets greater than \$1,500 with a useful life beyond one year. Capital assets costing less than \$1,500

or having a useful life of one year or less will be treated as operating expenditure.

DEBT MANAGEMENT POLICIES

1. The City Manager structures all debt issuances and oversees the on-going management of all City debt. Debt includes general obligation bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, equipment financing agreements and any other contractual arrangements that obligate the City to make future principal and interest payments.
2. No debt shall be issued for which the City is not confident that a sufficient specifically identified revenue source is available for repayment. The City Manager shall prepare an analysis of the source of repayment prior to issuance of any debt.
3. The City will not use long-term debt to fund current operations, to balance the budget or to fund projects that can be funded from current resources.
4. The City may utilize short-term debt or interfund loans as permitted, to cover temporary shortage due to timing of cash flows which may result from delay in receipting grant proceeds or other revenues and delay in issuance of long term debt.
5. When issuing long-term debt, the City will ensure that the debt is soundly financed by:
 - a. Incurring debt only when necessary for capital improvements too large to be financed from current available resources,
 - b. Insuring that capital projects financed through long term debt shall be financed for a period not to exceed the useful life of the project,
 - c. Determining that the benefits of the project financed exceed the cost of financing including interest costs,
 - d. Analyzing source of repayment, debt coverage ratios and the impact of debt service on annual fixed costs prior to issuance of long term debt.
6. All bond issuances and promissory notes will be authorized by resolution of the City Council.
7. The City will comply with all statutory debt limitations imposed by the Oregon Revised Statutes.

RESERVE POLICIES

- 1.. The City will maintain sufficient contingency and reserves in each fund for the ability to:
 - a. Mitigate short-term volatility in revenues
 - b. Mitigate short-term economic downturns (2 years or less)
 - c. Absorb unanticipated operating needs that arise during the fiscal year but were not anticipated during the budget process
 - d. Sustain city services in the event of an emergency
 - e. Meet operating cash flow requirements before the collection of property taxes, grant proceeds and other operating revenues
 - f. Absorb unexpected claim or litigation settlements
 - g. Purchase vehicle and equipment without the need to finance such purchases
 - h. Meet major facility and equipment repair and replacement needs
 - i. Meet future capital project needs so as to minimize future debt obligations and burden on future citizens
 - j. Meet requirements for debt reserves
2. General Fund Reserves — the City will strive to maintain General Fund undesignated reserves of at least 10% of the operating budget of the General Fund.
3. All Other Operating Funds — The City will strive to maintain undesignated reserves of at least 10% of the operating budget in all other operating funds unless it can be demonstrated that less than 10% is adequate to meet the needs of the operation.
4. The City will use reserves on a one-time or temporary basis for purposes described above. In the event that reserve funds decrease to levels below the levels established by this policy, the City will develop a plan to restore reserves to the required levels.
5. In accordance with Government Accounting Standards Board (GASB) Statement No. 54, titled Fund Balance Reporting and Governmental Fund Type Definitions, the City of Tillamook does hereby recognize and confirm the following GASB 54 classifications of fund balances which consider “the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.” The new categories are listed below:
 - **Non-Spendable** – funds that cannot be spent because these are not cash or have legal restrictions, such as prepaid items or inventory, or legally or contractually, required to be maintained intact, such as the principal amount on an endowment.
 - **Restricted** – funds that cannot be spent because of external legal or contractual restrictions such as those imposed by grantors, contributors, or governmental regulations.
 - **Committed** – funds that can be spent only with the same executive action taken by the elected board that imposed the restriction such as a reserve for specific use.

- **Assigned** – funds that can be spent with action taken by an individual or governing body, itself, or by an official or officers to which authority is delegated by the governing body such as a reserve for specific use like a housing program.
- **Unassigned** – funds deemed to be residual net resources (amounts in excess of the above four categorizations) found in the General Fund.

6. The City Council adopts the guidelines provided in the GASB No. 54 for accounting and reporting of governmental type funds effective with the fiscal year ending June 30, 2011. The existing funds and elements of fund balance that are thought to be subject to changes by this implementation include, but are not limited to:

Fund Number & Name	Category	Constrained By
010 General Fund	Unassigned	
020 Street Fund	Restricted	State Statute
021 Water Fund	Restricted	Enterprise Fund
022 Sewer Fund	Restricted	Enterprise Fund
070 TRT Fund	Restricted	Council Ordinance
091 Community Block Grant Fund	Restricted	Grantor
096 9-1-1 Communications Fund	Restricted	State Statute

GENERAL FUND STABILIZATION FUND POLICY

1. The City will strive to maintain and manage a General Fund Stabilization Fund in accordance with this policy.
2. The purpose of the General Fund Stabilization Fund will be to provide for severe economic downturns or major unforeseen events (as determined by Council action) where a significant portion of revenues supporting critical basic operations are projected to decline for more than 2 years or permanently, and such decline cannot be absorbed by the department or fund. In these events, the City will need time to affect reductions, consolidate operations, reprioritize critical programs or implement an alternate revenue source. The General Fund Stabilization Fund will provide temporary support to minimize the impacts to citizens who rely on these critical operations.
3. The General Fund Stabilization Fund will also be maintained to protect and enhance the City's credit rating. In the event that the City's General Fund Reserves temporarily fall below desired levels, the General Fund Stabilization Fund will serve to ensure that the City's credit rating is not adversely affected.

4. Once established, the General Fund Stabilization Fund will be funded annually as follows:
 - 50% of investment earnings of the General Fund
 - 50% of investment earnings of all other funds except as prohibited by law
 - Excess revenues and/or additional allocations from the General Fund as recommended by the Finance Officer and/or City Manager and approved by City Council. Examples of excess revenues include one-time payments from franchisees as a result of an audit, refunds or other one-time discretionary payments not anticipated to be needed for current operations.
5. The General Fund Stabilization Fund will only be used to provide temporary support for critical basic services and operations meeting the criteria established by this policy. In no event will the General Fund Stabilization Fund be used to fund new programs or to fund expenditures that should otherwise be funded with operating revenues, contingencies and reserves.
6. All request for use of the General Fund Stabilization Fund will include the following:
 - Projection of revenues indicating decline for more than 2 years or permanent decline as a result of economic downturn or unforeseen event
 - Analysis that revenue decline is so significant that it cannot be absorbed in the department or fund's operating budget through increases in other revenues or reduction of current expenditures
 - Determination that critical basic services and operations will be affected and citizens will be negatively impacted
 - Determination that request meets any other criteria determined by Council
 - Plan of action and long-term financial solution to address the revenue shortfall
7. All requests for use of the General Fund Stabilization Fund will be presented to Council along with City Manager's recommendation. The City Council shall make the final decisions concerning appropriation of funds from the General Fund Stabilization Fund.